

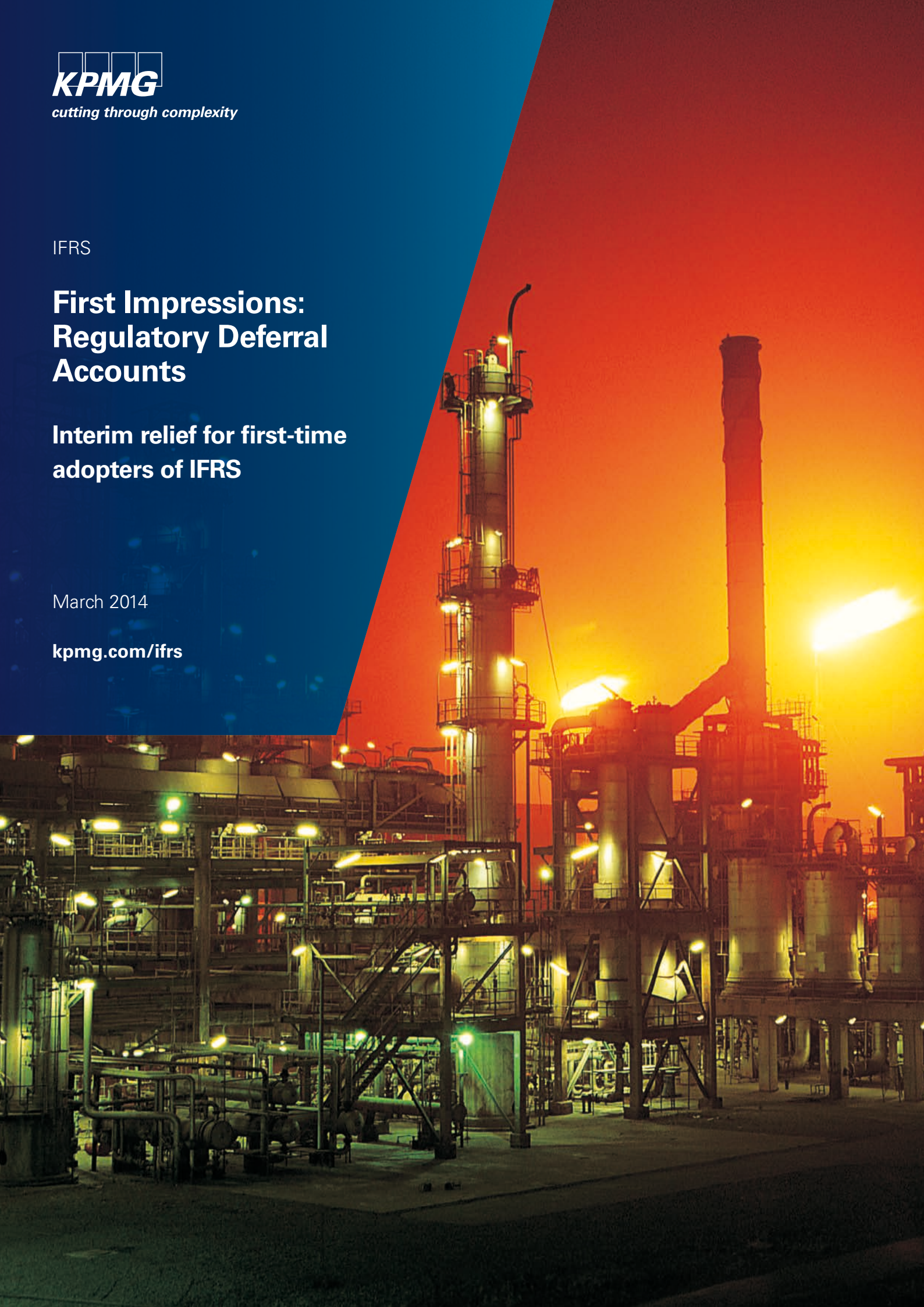
IFRS

First Impressions: Regulatory Deferral Accounts

**Interim relief for first-time
adopters of IFRS**

March 2014

kpmg.com/ifrs



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Interim relief for first-time adopters of IFRS

On 30 January 2014, the IASB issued the first specific guidance on accounting for the effects of rate regulation under IFRS, with the publication of an interim standard – IFRS 14 *Regulatory Deferral Accounts*. For rate-regulated entities that have deferred transition to IFRS, particularly in Canada, the interim standard will come as welcome news.

Accounting for rate-regulated activities has been hotly debated for many years, because – unlike guidance provided by some national accounting standard-setting bodies – IFRS has not previously contained specific accounting requirements for such activities. This long-awaited guidance will ease the transition to IFRS for entities subject to rate regulation by permitting first-time adopters to continue to account for regulatory deferral account balances using previous GAAP. This so-called ‘grandfathering approach’ is similar to the approach taken by the IASB for the insurance and extractive industries.

Adoption of the interim standard is optional for those entities that are eligible to use it, but the decision to apply it has to be taken in an entity’s first IFRS financial statements. As its application is restricted to first-time adopters, existing IFRS preparers are not impacted by the interim standard; however, they are not prohibited from providing supplemental disclosures based on the interim standard’s requirements.

To clearly show the effect of applying the interim standard, grandfathered regulatory deferral account balances have to be presented separately in the financial statements. These separate presentation requirements will help users to compare entities that elect to apply the interim standard with entities that already apply IFRS.

The interim standard is effective for financial reporting periods beginning on or after 1 January 2016, although early adoption is permitted. It provides temporary guidance only, while the IASB completes its comprehensive project on accounting for rate-regulated activities. It remains unclear whether or when regulatory deferral account balances could be recognised under IFRS in the future – a question that the IASB is considering in its comprehensive project, which is unlikely to conclude for several years.

For rate-regulated entities that have deferred transition to IFRS, the interim standard signals the time for action in implementing transition plans. We hope that this publication will assist you in gaining a greater understanding of the interim standard and its impact on the requirements of other standards.

Phil Dowad, KPMG’s global IFRS revenue recognition and provisions leader
KPMG International Standards Group

1 Key facts

- On 30 January 2014, the IASB published its interim standard IFRS 14 *Regulatory Deferral Accounts*. The interim standard provides temporary guidance for first-time adopters of IFRS on accounting for regulatory deferral account balances, while the IASB completes its comprehensive project on rate-regulated activities.
- The interim standard is effective for financial reporting periods beginning on or after 1 January 2016, with early adoption permitted.
- An entity is only eligible to apply the interim standard if it:
 - is subject to oversight/approval from an authorised body (the rate regulator);
 - accounted for regulatory deferral account balances in its financial statements in accordance with the basis of accounting used immediately before adopting IFRS (previous GAAP); and
 - elects to apply the requirements of the interim standard in its first IFRS financial statements.
- Adoption of the interim standard is optional for eligible entities, but the decision to apply it has to be taken in an entity's first IFRS financial statements.
- The interim standard permits an entity in its scope to continue to recognise and measure regulatory deferral account balances in accordance with its previous GAAP when it adopts IFRS – i.e. to apply a 'grandfathering' approach.
- The grandfathering approach does not apply to presentation. The interim standard requires regulatory deferral account balances to be presented separately from assets, liabilities, income and expenses that are recognised in accordance with other IFRSs.
- In applying the interim standard, an entity will also need to consider the interaction of regulatory deferral account balances with other IFRSs – for example:
 - income taxes relating to regulatory deferral account balances will be presented separately from income tax line items;
 - the presentation of earnings per share (EPS) will both include and exclude the net movement in the regulatory deferral account balances;
 - impairment testing in accordance with IAS 36 *Impairment of Assets* is not required for regulatory deferral account balances; however, IAS 36 applies to cash-generating units (CGUs) that include such balances;
 - an exception to IFRS 3 *Business Combinations* will apply for the recognition and measurement of an acquiree's regulatory deferral account balances;
 - entities should apply consistent accounting policies in accordance with IFRS 10 *Consolidated Financial Statements*, which may result in the recognition on consolidation of regulatory deferral account balances that were not previously recognised by a subsidiary; and
 - additional disclosures under IFRS 12 *Disclosure of Interests in Other Entities* are required if an entity's interests in other entities contain regulatory deferral account balances.
- The interim standard includes disclosure requirements regarding the nature, risk and effects of rate regulation, to help users to understand the rate regulation to which the entity is subject.
- An entity is permitted to change its accounting policy to discontinue recognition of regulatory deferral account balances subsequently; however, an entity is not permitted to begin recognising such balances after initial adoption of the interim standard.

2 How this could impact you

- **Critical decision on first-time adoption:** On transition to IFRS, entities will need to decide whether to continue to account for regulatory deferral account balances. The decision made on transition has lasting implications, because it will not be possible for an entity to subsequently change its accounting policy to start accounting for regulatory deferral account balances.
- **Transition considerations:** Entities planning to apply the interim standard will need to implement IFRS transition plans. They may need to upgrade accounting systems to ensure that records are maintained under IFRS, previous GAAP and any specific requirements of the regulator. Staff training requirements, accounting policy elections and optional IFRS 1 *First-time Adoption of International Financial Reporting Standards* exemptions will also need to be evaluated.
- **Impact on application of other IFRSs:** Although the interim standard will ease the transition to IFRS, entities may need to consider the interaction of regulatory deferral account balances with the application of other IFRSs. They will need to identify potential impacts of – or accounting adjustments required by – the exceptions, exemptions or other requirements in the interim standard.
- **Preparing for new presentation requirements:** Entities will need to prepare for the new separate presentation requirements – for example:
 - ensuring that regulatory deferral account balances are separated from assets and liabilities that are recognised in accordance with other IFRSs;
 - considering any consequential impacts on segment information or key performance indicators; and
 - making changes to systems and processes.
- **Impact on financial ratios:** Recognising regulatory deferral account balances and presenting them separately may affect an entity's working capital ratios or other financial ratios. This may affect not only internal reporting requirements, but also compliance with, for example, debt covenants.
- **Additional disclosure requirements:** Additional qualitative and quantitative disclosures may be required – e.g. the interim standard requires, for each type of rate-regulated activity, a reconciliation of the carrying amount of each class of regulatory deferral account balances at the beginning and end of the reporting period. Entities will need to assess whether their accounting systems are capable of generating the information required in a timely manner.



3 Introduction

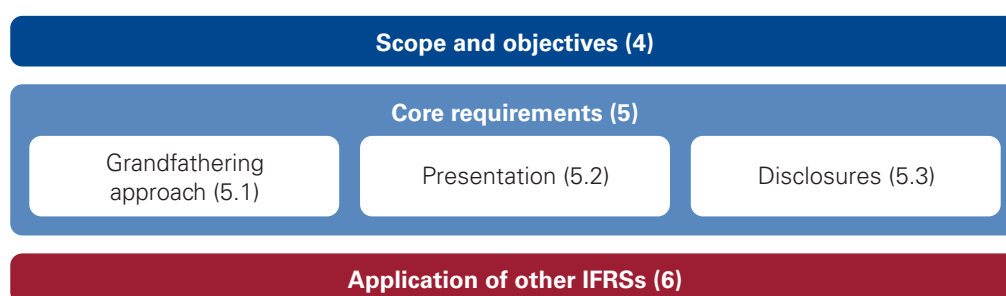
The interim standard offers first-time adopters relief from derecognising regulatory deferral account balances on transition to IFRS by permitting them to continue accounting for regulatory deferral account balances in accordance with their previous accounting policies. It is intended to minimise disruption, both for users and for preparers, when entities that have not yet adopted IFRS make the transition.

However, to promote comparability of financial statements, the interim standard requires the separate presentation of these balances, as well as specific disclosures. It also considers the interaction of other IFRSs with regulatory deferral account balances.

For these purposes, a ‘regulatory deferral account balance’ is any expense (or income) account that:

- is included or expected to be included by the rate regulator in establishing the rate(s) that can be charged to customers; and
- would not otherwise be recognised as an asset or a liability under other IFRSs.

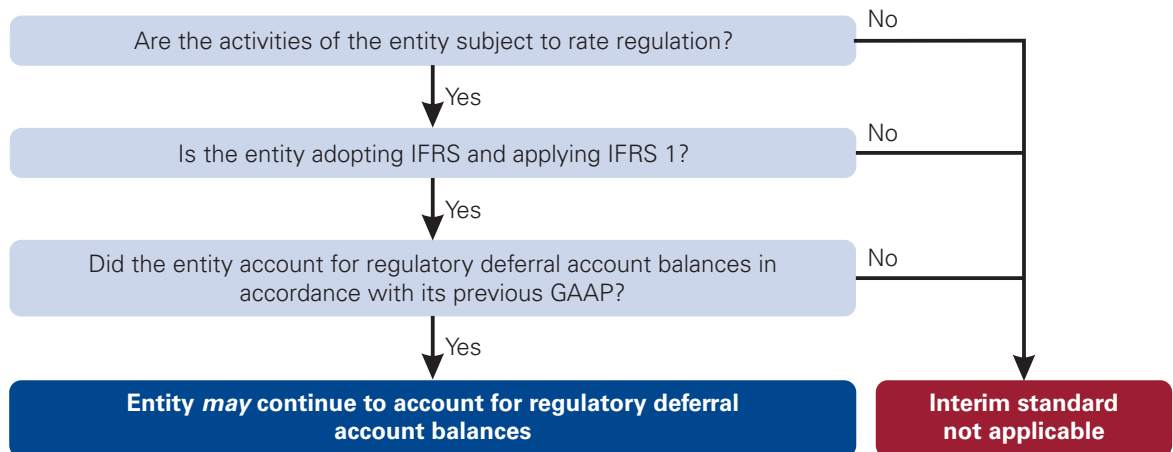
The following diagram summarises how the key concepts of the interim standard are explained throughout this publication. The corresponding section numbers are in brackets.



This publication addresses the interim standard, whose effective date is 1 January 2016. Early adoption is permitted, and an entity can therefore adopt the interim standard at the same time as it transitions to IFRS.

4 Scope and objectives

The following chart explains the scope of the interim standard.



4.1 Activities subject to rate regulation

IFRS 14.5, B1

The interim standard applies only to activities that are subject to statutory or regulatory restrictions, through the actions of a rate regulator – i.e. rate regulation.

IFRS 14.A

Rate regulation is defined in the interim standard as “a framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator”. In this context, a rate regulator is “an authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity”.

Observations – Flexibility in pricing permitted

IFRS 14.BC57

The definitions of ‘rate regulation’ and ‘rate regulator’ permit pricing based on the rate or range of rates established or approved by an authorised body. Entities that have some flexibility in pricing are therefore not precluded from applying the interim standard.

During redeliberations of the interim standard, the IASB acknowledged that price flexibility is a common feature of many rate-regulatory frameworks. For example, the rate regulator may:

- set different prices for different groups of customers;
- set a maximum price, but the entity can provide goods or services at a discount; or
- set a range of permitted prices.

If such flexibility is within clear restrictions established by the rate regulator, then activities subject to these types of rate-setting mechanisms are in the scope of the interim standard.

IFRS 14.7, BC26–BC27

Amounts classified as regulatory deferral account balances should not include any amounts that are permitted or required to be recognised in accordance with other IFRSs. In other words, regulatory deferral account balances should reflect the differences that arise between regulatory accounting requirements and the accounting that would otherwise be required in the absence of the interim standard.

IFRS 14.8

Application of the interim standard is optional but, if it is adopted, entities have to apply *all* of its requirements to *all* regulatory deferral account balances that arise from *all* of their rate-regulated activities.

Observations – Rate-regulated activities are either all-in or all-out

The interim standard applies on an all-or-nothing basis, meaning that the decision to continue to recognise regulatory deferral account balances cannot be made at a balance-by-balance level. Entities are not able to cease recognition of only certain regulatory deferral account balances on transition, but can elect not to apply the interim standard as a whole.

Self-regulation excluded from scope

IFRS 14.B2,
BC22–BC24

Activities that are self-regulated are generally not in the scope of the interim standard. For example, an entity with a dominant position in a market may decide to self-regulate to avoid external intervention. As there would be no formal rate regulator involved to ensure that a pricing framework is supported by statute or regulation, the oversight of these activities would not meet the definition of rate regulation.

However, entities that are regulated by their own governing body or a related party are eligible to apply the interim standard when:

- the governing body establishes rates both in the interest of the customers and to ensure the overall financial viability of the entity within a specified pricing framework; and
- the framework is subject to oversight and/or approval by an authorised body that is empowered by statute or regulation.

Observations – Scope restrictions

IFRS 14.BC24, BC55

Cases in which an entity has been delegated regulatory power by the government and conducts previously state-run monopolistic activities are intended to be captured by the interim standard. In a similar way, a co-operative subject to some form of regulatory oversight to obtain preferential loans, tax relief or other incentives to maintain the supply of essential or near-essential goods or services falls in the scope of the interim standard.

However, due to concern that the scope could be applied to commercial activities with monopolistic features, self-regulation is explicitly excluded from the scope of the interim standard and the rate regulator is required to be supported by statute or other formal regulation.

4.2 Application restricted to first-time adopters

IFRS 14.5, BC15

The interim standard is available only to entities that:

- are first-time adopters of IFRS; and
- recognised amounts that qualify as regulatory deferral account balances in their financial statements in accordance with the basis of accounting used immediately before transition to IFRS (previous GAAP).

IFRS 14.6

Adoption of the interim standard is optional for entities that are eligible to apply it, but the decision to apply it has to be taken in an entity's first IFRS financial statements. Entities transitioning to IFRS therefore need to evaluate whether to adopt the interim standard and therefore continue to account for regulatory deferral account balances in their opening IFRS statement of financial position.

The interim standard permits entities to 'continue to account for' rather than 'continue to recognise' regulatory deferral account balances as there may be activities for which a regulatory balance did not

exist immediately before transition, but for which the recognition of a balance arising in a future period would be consistent with the entity's existing accounting policies (see 5.1.1).

Observations – Decision whether to continue to account for regulatory deferral account balances

In arriving at a decision whether to apply the interim standard, entities may want to consider various factors – for example:

- how the interim standard may affect their transition to IFRS;
- the fact that the guidance is only temporary, and the outcome and expected completion date of the comprehensive project are not known;
- whether other entities in their jurisdiction intend to apply the interim standard;
- the impact of discontinuing the recognition of regulatory deferral account balances – e.g. on financial ratios or other key performance indicators;
- the capability of existing accounting systems to generate, in a timely manner, information required for additional qualitative and quantitative disclosures; and
- the materiality of regulatory deferral account balances.

Observations – Implications of transition to IFRS

As the interim standard is only available to first-time adopters, entities should also consider the impacts of adopting IFRS and actions needed to implement transition plans. For example, changes may be required to accounting systems and processes to ensure that records are maintained under IFRS, previous GAAP and any specific requirements of the regulator. Staff training requirements, accounting policy elections and optional IFRS 1 exemptions will also need to be evaluated.

4.3 Changes in accounting policy after transition

IFRS 14.13–15, BC33

An entity that recognises regulatory deferral account balances on transition to IFRS will subsequently be able to change its accounting policy to derecognise such balances, provided that the entity meets the criteria in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – i.e. the change would result in information that is more relevant and no less reliable, or more reliable and no less relevant to users.

IFRS 14.BC34

However, a subsequent change in accounting policy to start recognising regulatory deferral account balances is not permitted.

The following chart summarises the position on subsequent changes in accounting policies.

	Entity electing to grandfather	Entity not electing to grandfather
Expand the range of regulatory deferral account balances to recognise	✗	—
Reduce the range of regulatory deferral account balances to recognise	✗	—
Derecognise all regulatory deferral account balances	✓	—
Start recognising regulatory deferral account balances	—	✗

✓ Allowed ✗ Prohibited — Not applicable

Observations – Changes in accounting policy restricted

IFRS 14.BC33–BC35

Entities that do not currently recognise regulatory deferral account balances cannot apply the interim standard and start recognising such balances. In a similar way, entities applying the grandfathering approach are not permitted to recognise categories of regulatory deferral account balances that were not recognised in accordance with their previous GAAP.

The IASB’s rationale for these restrictions is that starting to recognise such balances would not make the financial statements more reliable under the requirements of IAS 8, given that the policy may need to change again following completion of the comprehensive project.

5 Core requirements

5.1 Grandfathering approach

IFRS 14.11–12

Under the interim standard, once the scope criteria have been met, an entity can elect to apply its previous GAAP accounting policies to the recognition, measurement, impairment and derecognition of regulatory deferral account balances on transition to IFRS. The policies established are then applied consistently by the entity in subsequent reporting periods, unless permitted changes are made (see 4.3).

IFRS 14.A, B3

For these purposes, a regulatory deferral account balance is any expense (or income) account that:

- is included, or expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers; and
- would not otherwise be recognised as an asset or liability in accordance with other IFRSs.

IFRS 14.B5

The interim standard provides examples of types of costs that rate regulators might allow in rate-setting decisions and that an entity may therefore recognise as regulatory deferral account balances – including:

- volume or price variances;
- approved green energy initiatives;
- non-directly attributable overhead costs;
- project cancellation costs;
- storm damage costs; and
- deemed interest.

IFRS 14.BC30

The IFRS Interpretations Committee previously concluded that the US GAAP recognition criteria relating to accounting for rate regulation are not fully consistent with the recognition criteria in IFRS. This conflict between available guidance from other standard-setting bodies and IFRS guidance has prevented almost all existing IFRS preparers from recognising regulatory deferral account balances.

IFRS 14.9–10

The interim standard therefore includes an exemption from applying the requirements of paragraph 11 of IAS 8 – i.e. it permits a grandfathering approach. This means that for regulatory deferral account balances, entities do not need to consider:

- the requirements in IFRS on similar and related issues; or
- the definitions, recognition criteria and measurement criteria in the IASB's *Conceptual Framework for Financial Reporting*.

Under the interim standard, an entity accounts for all other assets and liabilities in accordance with other IFRSs, unless a specific exemption applies. The interaction of the interim standard with other IFRSs is discussed in more detail in Section 6.

Observations – Grandfathering is not a new concept to IFRS

IFRS 14.BC31–BC32

The approach used by the IASB for rate regulation is not new. The Board took a similar approach for the insurance and extractive industries with IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources*, respectively. Both of these standards were issued in 2004 with the intention that they would be superseded by more comprehensive standards.

At the time of writing, both of these 'interim' standards remain in force. This experience suggests that – given the complexity associated with completing a comprehensive project – 'interim' standards might be part of IFRS for many years.

5.1.1 New regulatory deferral account balances

IFRS 14.B6, BC59(a)(iii) Accounting policy changes on first-time adoption or on the initial application of a new or revised standard may result in new timing differences between the recognition of items of income or expense for regulatory purposes and the recognition of those items for financial reporting purposes.

New or revised regulatory deferral account balances arising from such timing differences may be recognised in accordance with the interim standard. This is because recognising them would be consistent with the recognition of other timing differences already recognised as regulatory deferral account balances.

Example – Timing differences created by a change in accounting policy on adoption of IFRS

A rate regulator may allow pension costs to be reflected in rates as they are incurred. A company's previous GAAP accounting policy for pension costs may be consistent with the regulatory treatment and therefore no regulatory deferral account balance exists for those costs.

However, IAS 19 *Employee Benefits* requires defined benefit pension costs to be attributed to periods of service in accordance with the plan's benefit formula, or in some cases on a straight-line basis. As a result, on transition to IFRS a timing difference relating to such pension costs will arise, for which a regulatory deferral account balance will be created. An entity that elects to apply the interim standard will be required to recognise this balance on transition to IFRS.

IFRS 14.B6

In a similar way, the interim standard does not prohibit the recognition of regulatory deferral account balances arising from timing differences that did not exist immediately before the date of transition to IFRS, if they are consistent with the entity's established accounting policies.

Example – Timing differences that did not exist immediately before the date of transition

A company may have an accounting policy to recognise regulatory deferral account balances for storm damage costs that are expected to be recovered through the rate-setting framework. If such a regulatory deferral account balance was not recognised at the date of transition because no storm damage costs had recently been incurred, this would not preclude the company from recognising such a balance if there was a storm in a future reporting period.

5.2 Presentation requirements

IFRS 14.18–23, BC47

The interim standard requires regulatory deferral account balances and movements therein to be presented separately from assets, liabilities, income and expenses recognised in accordance with other IFRSs as follows.

- **In the statement of financial position:** Regulatory deferral account balances are presented – without offsetting of debit and credit balances – in separate line items, with subtotals calculated before the regulatory deferral account balances are presented.
- **In other comprehensive income (OCI):** The net movement in all regulatory deferral account balances that relate to items recognised in OCI in the reporting period is recognised in OCI in separate line items based on whether the net movement relates to items that will be subsequently reclassified to profit or loss.
- **In profit or loss:** The remaining net movement in all regulatory deferral account balances is presented in profit or loss as a separate line item, distinguished from income and expenses that are

presented in accordance with other IFRSs by use of a subtotal for the amount of profit or loss before the net movement in regulatory deferral account balances.

The objective of separate presentation is to isolate the impact of these balances from the financial reporting requirements of other standards.

5.2.1

IFRS 14.16

Statement of cash flows

The interim standard does not provide specific guidance on how an entity should present cash flows relating to regulatory deferral account balances in the statement of cash flows. Consistent with the general approach (see 6.1), the general principles in IAS 7 *Statement of Cash Flows* apply.

However, an entity is required to disclose information that enables users to assess the effects of rate regulation on its cash flows (see 5.3), which suggests that the statement of cash flows should reflect the entity's rate-regulated activities.

Observations – Statement of cash flows

An entity electing to present cash flows under the indirect method will therefore use profit for the year including net movements in regulatory deferral account balances as the starting point. Taking into consideration the interim standard's objective to isolate the impact of regulatory deferral account balances, activities relating to these balances will be presented as a separate line item(s) in the statement of cash flows.

5.2.2

IFRS 14.21, BC47

Classification of balances as current or non-current

Under the interim standard, entities should not classify regulatory deferral account balances as current and non-current line items in the statement of financial position. This is because significant judgement and effort will be required to determine the timing of recovery or reversal for each regulatory deferral account balance. Instead, entities disclose information about the reporting period(s) over which regulatory deferral account balances are expected to be recovered or reversed.

IFRS 14.24

The interim standard also requires separate presentation of a deferred tax asset (liability) and the related movement in that deferred tax asset (liability) that arise as a result of recognising regulatory deferral account balances, rather than including such amounts within income tax line items (see 6.2).

IFRS 14.IE1

Example – Presentation in the statement of financial position

	Note	20X7	20X6
Extract: Statement of financial position			
ASSETS			
Non-current assets	a	x	y
Current assets	b	x	y
Total assets		x	y
Regulatory deferral account debit balances and related deferred tax asset ¹	d	x	y
Total assets and regulatory deferral account debit balances		x	y

	Note	20X7	20X6
Extract: Statement of financial position (continued)			
EQUITY AND LIABILITIES			
Total equity	e	x	y
Non-current liabilities	f	x	y
Current liabilities	g	x	y
Total liabilities		x	y
Total equity and liabilities		x	y
Regulatory deferral account credit balances ¹	d	x	y
Total equity, liabilities and regulatory deferral account credit balances		x	y

¹ This example assumes that the company has offset the deferred tax assets and liabilities arising from the recognition of regulatory deferral account balances in accordance with paragraph 74 of IAS 12 *Income Taxes*.

IFRS 14.IE1

Example – Presentation in the statement of profit or loss and OCI

	Note	20X7	20X6
Extract: Statement of profit or loss and OCI			
Revenue	h	x	y
Cost of sales	i	x	y
Gross profit		x	y
Other income	j	x	y
Expenses	k	x	y
Net finance cost	l	x	y
Share of profit of associates and joint ventures	m	x	y
Profit before tax		x	y
Income tax expense	n	x	y
Profit for the year before net movements in regulatory deferral account balances		x	y
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	d	x	y
Profit for the year and net movements in regulatory deferral account balances		x	y
Other comprehensive income: items that will not be reclassified to profit or loss			
Remeasurement of defined benefit pension plans	p	x	y
Net movement in regulatory deferral account balances related to other comprehensive income	d	x	y
Other comprehensive income for the year, net of income tax		x	y
Total comprehensive income for the year		x	y

5.2.3

IFRS 14.7, 20

Separation of regulatory deferral account balances

Under previous GAAP, regulatory deferral account balances may have been included in the carrying amount of other assets and liabilities – e.g. property, plant and equipment (PPE) or intangible assets. However, the interim standard requires any amounts that meet the recognition criteria of other IFRSs to be accounted for in accordance with those IFRSs. Therefore, entities adopting the interim standard will need to identify balances that meet the definition of regulatory deferral account balances and subsequently track and account for these items separately. Relief from this requirement, at the date of transition, is provided by the deemed cost exemption in IFRS 1 (see 6.9).

Example – Identification of separate balances

Rates established by a rate regulator may include an allowance for funds used during construction (AFUDC), which under previous GAAP has been included in the cost of PPE and depreciated over future reporting periods as part of the total cost of the related asset. On adoption of the interim standard, the company would need to determine what borrowing costs qualify for capitalisation under IAS 23 *Borrowing Costs*. Any difference between this amount and the AFUDC recovery approved by the rate regulator should be classified as a regulatory deferral account balance.

Other areas where differences may arise include: stranded assets; losses on disposals; or non-directly attributable overhead costs for which the rate regulator allows recovery in future reporting periods.

Observations – Impacts on systems, processes, financial ratios and KPIs

Entities should consider whether changes to information systems and existing accounting processes are needed to separately track regulatory deferral account balances.

The interim standard's separate presentation requirements may also affect:

- key ratios, both internal and external – e.g. regulatory deferral account balances will not be classified into current or non-current and offsetting will not be permitted;
- operating segment disclosures;
- key performance indicators that are currently used by management;
- compliance with debt covenants; or
- dividend policies.

Entities that choose to apply the interim standard will probably wish to communicate the anticipated impacts to key stakeholders, and may be required to do so under local reporting regimes.

5.2.4

IFRS 14.BC60

Interim reporting

The interim standard does not provide any additional guidance on applying IAS 34 *Interim Financial Reporting*. Accordingly, consistent with the general approach (see 6.1), entities apply the general requirements of IAS 34 – including:

IAS 34.10

- at a minimum, each of the headings and subtotals that were present in the most recent annual financial statements and the selected explanatory notes required by IAS 34; and
- an explanation of any events and transactions that are significant to an understanding of the changes in financial position and performance of the entity.

IAS 34.15–15A

5.3 Disclosure requirements

IFRS 14.27–29

The disclosure requirements focus on providing users of the financial statements with information to evaluate the nature of, risks associated with, and effects of rate regulation on an entity's financial position, financial performance and cash flows.

Entities should consider the level of detail and extent of disclosures necessary to meet the specific needs of users in understanding the rate regulation to which the entity is subject.

IFRS 14.BC35

Entities that elect not to apply the interim standard, or those that are not eligible to apply it, are not required to apply any of the disclosure requirements. At the same time, they are not prohibited from providing the interim standard's supplementary disclosures.

The disclosure requirements primarily fall under two categories, and include the following.

IFRS 14.30–31

Features of rate regulation

Entities are required to disclose:

- the nature and extent of rate-regulated activities;
- the identity of the rate regulator and, if the regulator is a related party under IAS 24 *Related Party Disclosures*, then they also disclose that fact;
- risks and uncertainties that affect the future recovery of the regulatory deferral account balance, including demand risks, regulatory risks, currency risks or market risks; and
- the nature of the regulatory rate-setting process.

These disclosures can either be included in the financial statements or incorporated by cross-reference to other documents – e.g. management commentary or risk report – as long as those other documents are available to users of the financial statements on the same terms as the financial statements and at the same time.

IFRS 14.32–33

Effects on the financial statements

Entities are required to disclose the basis on which regulatory deferral account balances are recognised and measured initially and subsequently.

For each type of rate-regulated activity, entities should disclose the following for each class of regulatory deferral account balance.

- A reconciliation of the carrying amount at the beginning and the end of the reporting period, in a tabular format, including components such as:
 - amounts recognised in the current reporting period in the statement of financial position;
 - amounts recognised in the statement of profit or loss and OCI relating to balances that have been recovered or reversed in the current reporting period; and
 - any other amounts that affected regulatory deferral account balances, such as impairments, business combinations, items disposed of or the effects of changes in foreign currency rates or discount rates.
- The expected remaining periods of recovery.
- The rate of return or discount rate used to reflect the time value of money.
- The income tax on regulatory deferral account balances.
- Amounts not recoverable and the reasons for their not being recoverable.

IFRS 14.34–36

Section 6 of this publication looks at the disclosure requirements arising from other standards, including:

- IFRS 12 *Disclosure of Interests in Other Entities*;
- IAS 12 *Income Taxes*; and
- IAS 33 *Earnings per Share*.

Observations – Additional disclosure requirements

Entities should assess whether their systems can generate the information required for disclosures in a co-ordinated and timely manner. In preparation, and to identify any data gaps, they may wish to prepare an early mock-up of their first IFRS financial statements that incorporates the presentation and disclosure requirements of the interim standard.

IFRS 14.IE2

Example – Reconciliation of the carrying amount

The following example reconciliation assumes that the company has two types of rate-regulated activities – electricity distribution and gas distribution.

	20X6	Balances arising in the period	Recovery/ reversal	20X7	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
<i>Electricity distribution</i>					
Construction costs	y	x	(x)	x	4–10
Storm damage	y	-	(x)	x	4
Other regulatory accounts	y	x	(x)	x	4–10
<i>Gas distribution</i>					
Pension costs	y	x	(x)	x	N/A
Gas cost variances	y	-	(x)	x	1
	y	x	(x)	x	
Regulatory deferral account credit balances					
<i>Electricity distribution</i>					
Land disposal	-	x	-	x	10
Income tax	y	x	(x)	x	1–10
<i>Gas distribution</i>					
Gas cost variances	y	x	(x)	x	2–3
Income tax	y	x	(x)	x	1–10
Decommissioning costs	y	x	(x)	x	3–20
	y	x	(x)	x	

6 Application of other IFRSs

6.1 General approach

IFRS 14.16, B7

The normal requirements of other IFRSs apply to regulatory deferral account balances; however, there are some exceptions and additional requirements. In the absence of any specific exception, exemption or additional requirement in the interim standard, if other IFRSs have different requirements from the existing accounting policy under previous GAAP, then those standards take precedence in recognising and measuring regulatory items.

IFRS 14.17, B8

Standards that might need to be applied include, for example:

- IAS 7 *Statement of Cash Flows* (see 5.2.1);
- IAS 10 *Events after the Reporting Period* – to be applied in identifying whether estimates and assumptions that are used in recognising and measuring regulatory deferral account balances should be adjusted to reflect events that occur after the reporting date;
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* – to be applied in translating a foreign operation with rate-regulated activities; and
- IAS 34 *Interim Financial Reporting* (see 5.2.4).

Observations – Opening IFRS statement of financial position

Although the interim standard allows the grandfathering of existing accounting policies, it does not mean that an entity can necessarily carry forward the regulatory deferral account balances that it has recognised and measured in accordance with its previous GAAP to its first IFRS financial statements without adjustments.

To determine the amount of regulatory deferral account balances for the statement of financial position at the entity's date of transition, other IFRSs will need to be taken into account, and resulting adjustments will need to be made to the amounts carried forward from the previous GAAP.

IFRS 14.B7–B28

The interim standard contains specific exceptions, exemptions and additional requirements in applying the following standards:

- IAS 12 *Income Taxes* (see 6.2);
- IAS 33 *Earnings per Share* (see 6.3);
- IAS 36 *Impairment of Assets* (see 6.4);
- IFRS 3 *Business Combinations* (see 6.5);
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (see 6.6);
- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (see 6.7); and
- IFRS 12 *Disclosure of Interests in Other Entities* (see 6.8).

Observations – Exceptions, exemptions and additional requirements

The exceptions, exemptions and additional requirements have been developed to achieve two objectives:

- to resolve any conflicts between the grandfathered accounting policies and other IFRSs; and
- to better isolate regulatory deferral account balances from normal IFRS accounting.

IFRS 14.BC37

With the exception of IFRS 1 (see 6.9), consequential amendments have not been made to other IFRSs. This is because only a limited population of entities can apply the interim standard, and it is only intended to be a temporary solution.

6.2 IAS 12 *Income Taxes*

IFRS 14.24, B9

When applying the interim standard, IAS 12 is applied to all of an entity's activities, including rate-regulated activities, to identify the amount of income tax to be recognised. However, the amounts recognised related to regulatory deferral account balances are required to be presented separately rather than within tax line items.

IFRS 14.B11–B12

An entity may present the deferred tax asset (liability) or movement in the deferred tax amount that arises as a result of recognising regulatory deferral account balances either:

- with the line items that are presented for the regulatory deferral account balances and movements therein; or
- as a separate line item alongside the regulatory deferral account balances or movements therein.



Observations – Deferred tax on a temporary difference on a regulatory deferral account balance

An entity applying the interim standard might or might not have recognised deferred tax with regard to temporary differences on regulatory deferral account balances in accordance with its previous GAAP.

Because the existing policy on recognising deferred tax will not be grandfathered, on applying IAS 12 the entity will recognise deferred tax arising from temporary differences on regulatory deferral account balances. This may change the net amount of the regulatory deferral account balances compared with the pre-transition financial statements.

IFRS 14.B10

Under some rate-regulatory frameworks, future rates can be increased to recover some or all of an entity's income tax expense. In this case, the entity will recognise a regulatory deferral account balance for income tax. On applying IAS 12, an additional temporary difference may arise on this regulatory deferral account balance, for which the entity might need to recognise more deferred tax. This interaction between deferred tax and regulatory deferral account balances will gross up the amount of both regulatory deferral account balances and deferred tax.

IFRS 14.IE5

Example – Presentation of income taxes

The example in 5.2 illustrates the presentation of deferred tax assets (liabilities) and the movement in that deferred tax amount within the line items that are presented for the regulatory deferral account balances and movements therein.

Alternatively, a company may split out the deferred tax balances as a separate line item alongside the regulatory deferral account balances or movements therein, as illustrated below.

	Note	20X7	20X6
Extract: Statement of financial position			
Total assets		x	y
Regulatory deferral account debit balances	d	x	y
Deferred tax asset associated with regulatory deferral account balances	d	x	y
Total assets and regulatory deferral account debit balances		x	y

	Note	20X7	20X6
Extract: Statement of profit or loss and OCI			
Profit for the year before net movements in regulatory deferral account balances		x	y
Net movement in regulatory deferral account balances related to profit or loss	d	x	y
Net movement in the deferred tax asset arising from regulatory deferral account balances related to profit or loss	d	x	y
Profit for the year and net movements in regulatory deferral account balances		x	y

6.3 IAS 33 *Earnings per Share*

IFRS 14.26, B13–B14

When an entity presents earnings per share (EPS) in accordance with IAS 33, the interim standard requires the presentation of EPS both including and excluding the movements in the regulatory deferral account balances, with equal prominence.

Aside from removing the net movements of regulatory deferral account balances from the calculation, EPS is calculated in the normal way to determine basic and diluted EPS.

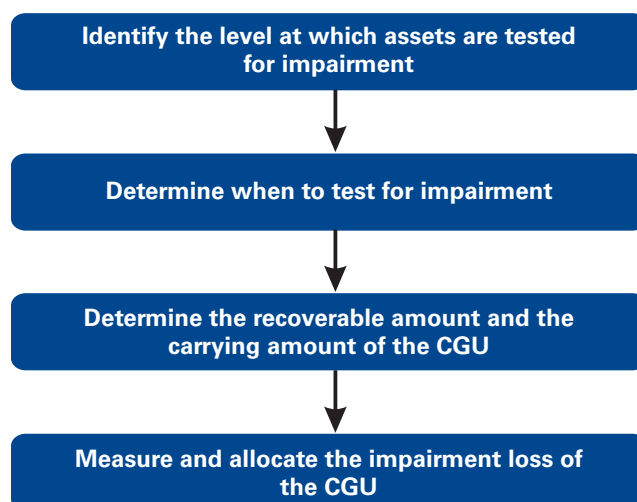
IFRS 14.IE1

Example – EPS presentation

	Note	20X7	20X6
		<u>x</u>	<u>y</u>
Profit for the year			
Earnings per share			
Basic earnings per share	p	x	y
Diluted earnings per share	p	x	y
Basic earnings per share including net movement in regulatory deferral account balances	p	x	y
Diluted earnings per share including net movement in regulatory deferral account balances	p	x	y

6.4 IAS 36 *Impairment of Assets*

An entity will take the following steps in performing impairment tests under IAS 36.



6.4.1 Level of impairment test

IFRS 14.B15

Because an entity will continue to apply its existing accounting policies under previous GAAP for the identification, recognition, measurement and reversal of impairment related to its regulatory deferral account balances, IAS 36 does not apply to such balances – i.e. such balances are outside the scope of IAS 36. Although paragraph 2 of IAS 36 would normally list the items that are outside the scope of the standard, the scope exemption for regulatory deferral account balances is instead established in the interim standard's application guidance. This is because, as noted in section 6.1, other IFRSs were not subject to consequential amendments for the interim standard.

IFRS 14.B16

Even though individual regulatory deferral account balances are not tested for impairment under IAS 36, such balances are relevant to impairment tests conducted under IAS 36. Specifically, items to which IAS 36 does not apply are nonetheless included in the carrying amount of a cash-generating unit (CGU) if this is consistent with the way in which the recoverable amount is measured (see 6.4.2). In a similar

way, under the interim standard an entity applies the requirements of IAS 36 to a CGU that includes regulatory deferral account balances.

Observations – Level of impairment test

Based on our experience, a regulatory deferral account balance will form part of a wider CGU and will therefore be included in impairment testing at that level.

6.4.2

IAS 36.9–10

Impairment test for a CGU

Impairment testing is required:

- at each reporting date for an asset or CGU when there is an indication of possible impairment (a triggering event); and
- annually for the following assets, regardless of whether there is a triggering event:
 - intangible assets with an indefinite useful life;
 - intangible assets not yet available for use; and
 - CGUs to which goodwill has been allocated.

IFRS 14.B16

Under the interim standard, an entity applies the requirements in paragraphs 74–79 of IAS 36 in determining the recoverable amount and the carrying amount of a CGU. This includes the decision on whether any of the regulatory deferral account balances recognised are included in the carrying amount of the CGU. Those requirements focus on consistency between the ways in which the recoverable amount and the carrying amount of a CGU are determined – i.e. a ‘like with like’ comparison.

Observations – Inclusion of regulatory deferral account balances in the carrying amount of a CGU

The value of an asset or CGU relates to its expected future benefits. Regulatory deferral account balances relate to amounts that will be, or are expected to be, included in future rates charged to customers. These future rates are included in the measurement of the recoverable amount, regardless of whether it is based on:

- the value to the entity from use of the asset (value in use); or
- the value to market participants (fair value less costs of disposal).

Therefore, the recoverable amount of a CGU that provides a rate-regulated activity includes the effect on the value of the CGU of the factors that gave rise to the regulatory deferral account balances.

For consistency, it follows that regulatory deferral account balances should be included in the carrying amount of the CGU.

6.4.3

*IFRS 14.B16,
IAS 36.104–125*

Measurement and allocation of the impairment loss

When a CGU that contains a regulatory deferral account balance is tested for impairment, the IAS 36 requirements are applied to any impairment loss recognised as a result of the impairment test. The requirements include the following.

- An impairment loss is recognised to the extent that the carrying amount of a CGU exceeds its recoverable amount.

- An impairment loss related to a CGU is allocated first by writing down any goodwill that is allocated to the CGU. The remaining amount is allocated on a pro rata basis to the carrying amounts of the CGU's other assets that are in the scope of IAS 36.
- No asset is written down below its recoverable amount or zero.
- A liability is recognised for any unallocated impairment loss only if it is required by another standard.
- The impairment loss – unless it relates to goodwill – may be reversed if the recoverable amount of the CGU subsequently increases, subject to the requirements in IAS 36 on reversing impairments.

Observations – Allocating an impairment loss within the CGU

As the recognition of regulatory deferral account balances will impact the carrying amount of a CGU but not its recoverable amount, applying the interim standard may affect the outcome of impairment testing.

Inclusion of a regulatory deferral account debit balance in the carrying amount of a CGU might result in the recognition of an impairment loss (where otherwise none would have been recorded) or in a larger impairment loss.

Inclusion of a regulatory deferral account credit balance in the carrying amount of a CGU might result in the recognition of no impairment loss (where otherwise one would have been recorded) or in a smaller impairment loss.

As regulatory deferral account balances are excluded from the scope of IAS 36, a pro rata share of any impairment loss is not allocated to such balances included in an impaired CGU. Consequently, any impairment losses are allocated to the other assets in the CGU, as illustrated below.

This means that application of the interim standard can affect not only the size of any impairment loss, but also the carrying amount of assets other than the regulatory deferral account balances recognised.

Example – Allocation of impairment loss

CGU C, which carries out electricity distribution activities, has been allocated goodwill of 40. Company X has elected to apply the interim standard and C contains a regulatory deferral account debit balance of 80.

As at 31 December 20X7 the carrying amount of C, including the regulatory deferral account balance, is 1,000. The recoverable amount, based on the higher of value in use and fair value less costs of disposal, is determined to be 850. Accordingly, X determines that C is impaired by 150 (1,000 - 850). The goodwill of 40 is written off and the remaining impairment of 110 is allocated on a pro rata basis to the other CGU assets in the scope of IAS 36.

	Carrying amount pre- impairment	Impairment loss allocation	Carrying amount after impairment
Assets			
Property, plant and equipment	700	(87)	613
Intangible assets	180	(23)	157
Goodwill	40	(40)	-
Regulatory deferral account debit balance	80	-	80
Total	1,000	(150)	850

By contrast, if X does not apply the interim standard, then the carrying amount of C is 920 (reduced by 80 as no regulatory deferral account balances are recognised by X). The recoverable amount, based on the higher of value in use and fair value less costs of disposal, is determined to be 850. Accordingly, X determines that C is impaired by 70 (920 - 850). The goodwill of 40 is written off and the remaining impairment of 30 is allocated to the other assets in C.

	Carrying amount pre- impairment	Impairment loss allocation	Carrying amount after impairment
Assets			
Property, plant and equipment	700	(24)	676
Intangible assets	180	(6)	174
Goodwill	40	(40)	-
Total	920	(70)	850

6.5 IFRS 3 *Business Combinations*

IFRS 14.B17–B18

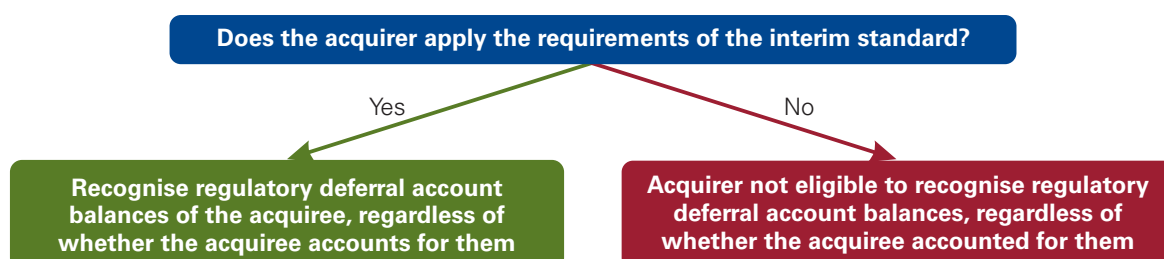
If an entity that elects to apply the interim standard acquires a business that conducts rate-regulated activities, then the core principles of IFRS 3 should be applied. The interim standard, however, provides a limited exception that the acquirer's previous GAAP accounting policies are applied for the recognition and measurement of regulatory deferral account balances that have been acquired or assumed in a business combination.

Regulatory deferral account balances arising from the acquiree's rate-regulated activities are recognised by the acquirer, based on the acquirer's accounting policies – even if such balances were not recognised by the acquiree.

IFRS 14.BC59(a)(iii)

In a similar way, if an acquirer does not recognise regulatory deferral account balances in accordance with the interim standard, then such balances cannot be recognised as a result of a business combination.

These requirements are consistent with the interim standard's guidance on the application of IFRS 10 and IAS 28 (see 6.7), which will be applied post-acquisition.



6.6

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 14.B19

The classification criteria of IFRS 5 for presenting non-current assets held for sale or discontinued operations apply to a disposal group or a discontinued operation that includes regulatory deferral account balances; however, those balances are outside the scope of the measurement requirements of IFRS 5. Although paragraph 5 of IFRS 5 would normally list the items that are outside the measurement provisions of the standard, the scope exemption for regulatory deferral account balances is instead established in the interim standard’s application guidance. This is because, as noted in section 6.1, other IFRSs were not subject to consequential amendments for the interim standard.

IFRS 5.23

Assets or liabilities that are not in the scope of the IFRS 5 measurement requirements are included in the carrying amount of a disposal group, but any impairment loss recognised for a disposal group is allocated only to the non-current assets that are in the scope of the measurement requirements of IFRS 5.

Observations – Measurement of a disposal group

Inclusion of a regulatory deferral account debit balance in the carrying amount of a disposal group will result in a carrying amount higher than that of a disposal group that does not include such balances. The measurement of fair value less costs to sell will be the same for both disposal groups and therefore application of the interim standard may affect the size of any impairment loss. The carrying amount of the disposal group’s non-current assets may also be affected because, similar to allocating an impairment loss within a CGU (see 6.4.3), an impairment loss will be allocated to the disposal group’s non-current assets in the scope of IFRS 5.

IFRS 14.B20–B22

An entity that applies the interim standard does not include the movement in regulatory deferral account balances that relates to a discontinued operation with the amounts presented as ‘profit or loss from discontinued operations’ in accordance with IFRS 5. In the same way, an entity does not include regulatory deferral account debit or credit balances that relate to a disposal group with the amounts presented as ‘non-current assets held for sale’. Rather, it presents these balances or movements either:

- within the line items that are presented for the regulatory deferral account balances and movements therein; or
- as a separate line item alongside the other regulatory deferral account balances or movements therein.

If a discontinued operation or disposal group that meets the classification criteria of IFRS 5 includes regulatory deferral account balances, then such balances and the other assets and liabilities within the discontinued operation or disposal group will be measured and presented as follows.

	Regulatory deferral account balances	Other assets/liabilities
Measurement	Previous GAAP	IFRS
Presentation	With the regulatory line item	Within the discontinued/ disposal line item

The options available to present regulatory deferral account balances included in a disposal group are similar to those for the presentation of income taxes (see 6.2).

IFRS 14.IE5

Example – Presentation of non-current assets held for sale

	Note	20X7	20X6
Extract: Statement of financial position			
ASSETS			
Non-current assets	a	x	y
Current assets	b	x	y
Disposal group assets	q	x	y
Total assets		x	y
Regulatory deferral account debit balances related to disposal group	d, q	x	y
Other regulatory deferral account debit balances	d	x	y
Deferred tax asset associated with regulatory deferral account balances	d	x	y
Total assets and regulatory deferral account debit balances		x	y
EQUITY AND LIABILITIES			
Total equity	e	x	y
Non-current liabilities	f	x	y
Current liabilities	g	x	y
Disposal group liabilities	q	x	y
Total liabilities		x	y
Total equity and liabilities		x	y
Regulatory deferral account credit balances	d	x	y
Total equity, liabilities and regulatory deferral account credit balances		x	y

6.7 IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*

IFRS 10.19

An entity's previous GAAP may not have required the accounting policies of subsidiaries to be harmonised on consolidation; however, IFRS 10 requires a parent to prepare consolidated financial statements using uniform accounting policies for similar transactions and for other events in similar circumstances.

IFRS 14.B23–B24

If a parent applies the interim standard, then it applies the same accounting policies to the regulatory deferral account balances of all of its subsidiaries in its consolidated financial statements, regardless of whether the subsidiaries account for those balances. A similar requirement applies to an investor applying the equity method to investments in associates and joint ventures.

Example – Uniform accounting policies

Parent P holds Subsidiary B, which does not recognise regulatory deferral account balances in its own financial statements. On transition to IFRS, if P applies the interim standard then it will be required to apply its accounting policies to the rate-regulated activities of B and recognise any regulatory deferral account balances accordingly. P will need to evaluate whether changes to its systems and processes are needed to track and account for these balances in the consolidated financial statements.

By contrast, if P does not apply the interim standard, then it will recognise no regulatory deferral account balances in the consolidated financial statements – regardless of whether some of its subsidiaries recognise such balances in their own financial statements.

6.8 IFRS 12 *Disclosure of Interests in Other Entities*

The interim standard includes additional disclosure requirements if an entity's interests in its subsidiaries, associates or joint ventures contain regulatory deferral account balances.

IFRS 14.B25

For each of its subsidiaries that have non-controlling interests (NCI) that are material to the entity, the entity discloses the net movement in regulatory deferral account balances allocated to NCI.

IFRS 14.B26–B27

For each of its subsidiaries that have NCI that are material to the entity, or for each associate or joint venture that is material to the entity, an entity discloses:

- the regulatory deferral account balances;
- the net movement in those balances; and
- other summarised financial information required in IFRS 12.

For all individually immaterial joint ventures or associates, the entity may disclose these amounts in aggregate, separately for joint ventures and associates.

IFRS 14.B28

When an entity loses control over a subsidiary, the entity will disclose the portion of gain or loss that is attributable to derecognising regulatory deferral account balances in the former subsidiary.

Example – Loss of control over subsidiary subject to rate regulation

Parent P sells 100% of subsidiary S for 1,300 in cash. At that date, the carrying amount of net assets of S in P's consolidated financial statements is 1,000, including a regulatory deferral account debit balance of 200 relating to S's rate-regulated activity.

P recognises a gain of 300 (1,300 - 1,000) and discloses 200 as the amount that is attributable to derecognising regulatory deferral account balances.

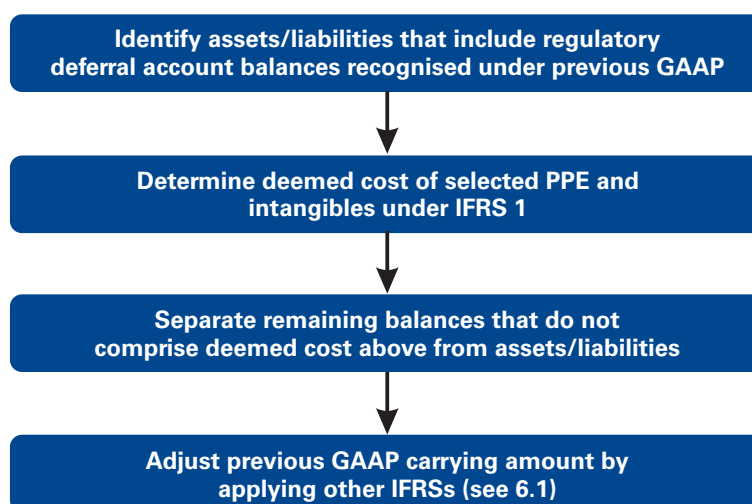
6.9

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IFRS 1.D8B,
IFRS 14.BC38

IFRS 1 includes an optional exemption permitting a first-time adopter to use the carrying amounts of PPE or intangible assets that were determined under previous GAAP on an item-by-item basis ('deemed cost exemption'). The consequential amendment to IFRS 1 provides relief from the requirement to separate out the regulatory component of the carrying amount of items of PPE or intangible assets at the date of transition.

An entity applying both the interim standard and the IFRS 1 exemption should follow the steps below to determine initial regulatory deferral account balances at the date of transition to IFRS.

**Observations – Deemed cost vs regulatory deferral account balances**

The deemed cost exemption is optional and would have an impact on both the initial accounting in the opening IFRS statement of financial position and the subsequent accounting.

If an entity elects to apply the deemed cost exemption, then regulatory deferral account balances already recorded within the cost of PPE or intangible assets will remain in these assets. They will be subject to IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets* for subsequent accounting, and IAS 36 for impairment testing.

Example – Application of the deemed cost exemption

Company Y elects to use deemed cost for all balances previously recognised as PPE on transition to IFRS at 1 January 20X6. These balances total 100. Under IFRS, Y depreciates the relevant item of PPE over 10 years. At 31 December 20X6, the regulatory deferral account debit balance determined by its previous GAAP increases to 150.

Y recognises a regulatory deferral account debit balance of 50 in the statement of financial position, with a net movement in regulatory deferral account balances of 45. However, Y has also recognised depreciation expense of 10 under IFRS – attributable to a regulatory item included in PPE – by applying the deemed cost exemption. By contrast, if Y does not apply the deemed cost exemption, the net movement in regulatory deferral account balances is 35.

The following extract from Y's financial statements demonstrates the accounting after adopting the standard, depending on whether the deemed cost exemption is applied.

	Deemed cost exemption not applied		Deemed cost exemption applied	
	1 Jan 20X6	31 Dec 20X6	1 Jan 20X6	31 Dec 20X6
Property, plant and equipment	-	-	100	90
Regulatory deferral account debit balance	100	150	-	50
Net movement in regulatory deferral account balances ¹	n/a	35	n/a	45
Depreciation	n/a	-	n/a	(10)
Profit before tax	n/a	35	n/a	35

Note 1:				
Balances arising in the period	n/a	50	n/a	50
Recovery/reversal	n/a	(15)	n/a	(5)
Net movement in regulatory deferral account balances		<u>35</u>		<u>45</u>

About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

Content

Our *First Impressions* publications are prepared on the release of a new IFRS or amendment(s) to the requirements of existing IFRSs. They include a discussion of the key elements of the new requirements and highlight areas that may result in a change of practice.

This edition of *First Impressions* considers the requirements of the IASB's interim standard for regulatory deferral account balances.

The text of this publication is referenced to the interim standard and to selected other current IFRSs in issue at 15 March 2014. References in the left-hand margin identify the relevant paragraphs.

Further analysis and interpretation will be needed for an entity to consider the potential impact of the interim standard in light of the entity's own facts, circumstances and individual transactions. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change.

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Acknowledgements

We would like to acknowledge the efforts of the principal authors of this publication. The authors include Katja van der Kuij-Groenberg, Amy Luchkovich and Brian O'Donovan of the KPMG International Standards Group.

We would also like to thank the members of KPMG's global IFRS rate-regulated activities working group for their contributions:

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Publication name: *First Impressions: Regulatory Deferral Accounts*

Publication number: 131269

Publication date: March 2014

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